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C O N F I D E N T I A L BAKU 001089

SIPDIS

FOR EXIM BANK/DIRECTOR BIJAN KIAN
FOR EEB/IFD/OMA - AWHITTINGTON, EEB/EPPD - RHUFF, AND
EEB/CBA - FMERMOUD

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TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [EAGR](#) [ECIN](#) [AJ](#)

SUBJECT: EXPORT-IMPORT BANK DIRECTOR VISIT BUILDS
CONFIDENCE AND GAINS INFORMAL FINANCING REQUESTS

Classified By: Political-Economic Counselor Rob Garverick, for Reasons
1.4 (b) and (d).

¶1. (U) SUMMARY: Export-Import Bank Director Bijan Kian visited Baku October 13-16 to follow-up on his February 2008 trip, checking in on U.S. based companies, their partners and projects, and to reassure interlocutors of the Bank's ability to continue to support those projects in spite of the recent global financial crisis. During this visit, he met with GOAJ financial and oil sector officials as well as representatives from U.S. companies John Deere, Cisco and General Construction. Azerbaijan's official bankers denied any significant impact of the international financial crisis on domestic banks, but suggested that lower oil prices could drive down government spending on lesser priority projects, such as environmental remediation. End Summary.

¶2. (U) During his October 13-16 visit to Baku, Export-Import Bank (EXIM) Director Bijan Kian met with U.S. based company representatives and their partners, as well as GOAJ financial and oil sector officials to follow-up on meetings held in February 2008 and reassure them of EXIM's continued ability and willingness to support current and future projects. He thanked customers of U.S. firms for their business, noting that "we know you have a choice and we appreciate your business." He also discussed the details of several on-going, as well as upcoming, projects involving U.S. companies which will require further follow-up.

Financial Sector Meetings

¶3. (U) During his trip to Baku, Director Kian met with representatives from the Central Bank, the International Bank of Azerbaijan (IBA), Unibank, and the State Oil Fund of Azerbaijan (SOFAZ), as well as the Minister of Finance. With regard to the global financial crisis, he reassured contacts that, "we've been hit before, and we know how to deal with it." He reminded them of the resilience of the American economy and the American worker, and noted that volatility is a normal condition of markets. He also confirmed that the USG has taken steps, in conjunction with the G7 and G20, to reach an international solution and noted that new measures were being considered to further increase market liquidity.

¶4. (U) Answering questions about the ability and willingness of EXIM to continue to support projects, Director Kian noted

that the current crisis of confidence in the financial sector does not affect EXIM. He emphasized that because it is backed by the full support and guarantee of the USG, EXIM operates as a "lender of last resort" and does not compete directly with commercial banks. He then stated EXIM's continued enthusiastic support for projects involving U.S. companies and U.S. exports.

¶15. (C) In response to queries as to how the global financial crisis was affecting banks in Azerbaijan, Central Bank Chairman Elman Rustamov acknowledged that some banks were tightening up on lending due in part to liquidity issues related to lines of credit with foreign banks, but also stated that no banks were experiencing severe difficulties. International Bank of Azerbaijan Chairman Jahangir Hajiyev, echoed these sentiments, and added that the GOAJ had recently taken steps to increase liquidity by reducing the compulsory reserve rate in national and other currencies from 12 to 9 percent of banking liabilities, and eliminated the 5 percent reserve rate on external liabilities completely. Financial sector plans to address issues of market access, inflation, growth and stability reported septel.

¶16. (C) SOFAZ: As this was their first meeting, SOFAZ Executive Director Shahmar Movsumov took time to illustrate the workings of the State Oil Fund of Azerbaijan, explaining that of oil revenues coming into the fund, approximately two thirds are invested and one third is used to support the budget and social programs. He emphasized that as the fund has made very conservative investments, it was not affected by the recent global economic turmoil. He noted that while the fund was not invested in the sub-prime market, it did

have some exposure in the financial markets which did not result in losses, merely smaller gains. Movsumov remarked that, unlike Norway which was heavily invested in equities and therefore suffering greatly, SOFAZ was primarily invested in highly liquid and highly rated bonds and treasury bills.

¶17. (C) Movsumov agreed that SOFAZ needs to become a more aggressive investor, as long as it can do so without unnecessarily increasing risk. He explained plans to transform the fund into a "sovereign wealth fund" which would provide for future generations. He noted that while some funds would be spent on special development projects such as the BTC pipeline, the KARS railroad project and others; the rest would be invested, and treated responsibly, as permanent income rather than windfall income. When asked if they were considering investing in U.S. companies, he replied "yes, but not just now." He envisioned a 1 to 2 year timeframe before SOFAZ would consider investing in both public and private U.S. companies.

¶18. (C) MoF: Finance Minister Samir Sharifov, asked Director Kian in their meeting if EXIM would be able to provide retroactive financing for the GE turbines the GOAJ purchased for the Ali Bayramli power plant. He also inquired, theoretically, about the amount of financing EXIM could provide for a highway project if the GOAJ planned to do 90 percent of the job themselves using local contractors and products. Director Kian said he would look into the GE issue further, noting that timing and U.S. content would need to be determined. He explained that EXIM can only finance retroactively within 12 months of purchase. (Note: In a recent communique from GE, they state their belief that the turbines may have been manufactured at the GE plant in France. End Note.) Director Kian reiterated the EXIM limits and policies on financing 100 percent of U.S. content or 85 percent of the U.S. supply contract, including the limits of foreign content and designation of eligible foreign content.

Other GOAJ Meetings

¶19. (C) AZAL: In a warm and candid meeting Azerbaijan Airlines (AzAl) General Manager Mr. Jahangir Askerov informed Director Kian of the airline's preference for U.S.-made aircraft and plans for expansion in its commercial passenger

service, cargo service under the Silkway Airlines brand, and a new business aviation company planned to launch in 2009. Mr. Askerov noted AzAl's plans to overhaul its commercial air fleet including proposed purchases over the next 5-10 years of 4 Boeing 737s, 2 Boeing 767s and 2 Boeing 787s. He stated that the state-owned closed-corporation was seeking 147 million USD in pre-delivery financing and possibly full-financing if they could obtain favorable conditions. He informed Director Kian that the organization expects to need the money in 2010 and is in the process of applying to EXIM for financing.

¶10. (C) Mr. Askerov went on to describe plans for further expansion of GOAJ aviation, noting that AzAl planned to add a direct, one-stop flight to New York, as well as several flights to Europe, including daily flights to London and Paris, and the possible addition of flights to Germany. He mentioned plans for the cargo company, Silkway Airlines, to continue its expansion with the purchase of 3 Sikorsky helicopters. And finally he revealed GOAJ plans to create a business aviation entity, comprised of 12 Gulfstream 650 Series aircraft (a 530 million USD project), for which it planned to formally apply to EXIM for a 140 million USD loan next year.

¶11. (C) MCIT: In his meeting with Minister of Communications and Information Technology Minister Ali Abassov, Director Kian inquired after the planned Orbital satellite project. He was informed that there were no problems, and that the GOAJ was expecting the President of Orbital to come to Bakutel, the international telecommunications and IT exhibition, November 11-14, and that they hoped the agreement for the current project would be signed on the opening day of the exhibition. Minister Abassov then explained that there

was an additional satellite project in the works for which they would be seeking financing, possibly from EXIM Bank. To assuage the Minister's concerns for project funding based on the decreasing price of oil, Director Kian arranged for EXIM's Project Financing Department to contact the Ministry to get the application process started for what could be a 200 million USD project over the next 5 to 7 years.

¶12. (C) The Minister further went on to explain the GOAJ plan to increase its IT infrastructure to spearhead a project to build an information superhighway from Bulgaria to Pakistan, in order to bridge the gap between NATO and ASEAN countries. This project would include the use of Cisco routers capable of transmitting 96 terabits per second, if it succeeds. He also mentioned a national personal computer (PC) project which aimed to increase the saturation of Azerbaijani homes with access to the internet from its current level of 7 percent. This project would likely include Cisco, Microsoft and Intel technologies.

¶13. (C) SOCAR: At the State Oil Company of the Azerbaijan Republic (SOCAR), Director Kian met with both the Vice President for Environment, Muhktar Babayev, and the Head of Foreign Investments, Vagif Aliyev. Aliyev was very interested in learning about the process and the length of time to apply for EXIM funding, noting that SOCAR had lately preferred to work with private entities vice government to fund projects, thus avoiding unnecessary bureaucracy and garnering more favorable terms. He noted that the current global financial crisis might direct them to government entities to fund those projects in the near term. Director Kian explained recent changes at EXIM which were designed to streamline the process, and increase communication, responsibility and responsiveness of bank officers. He noted that a medium term project of 5-7 years should take approximately 60 days to process, once the application and supporting documentation were received.

¶14. (C) In contradiction to the interest Aliyev expressed in U.S. equipment for oil and gas processing to support the GOAJ upcoming 12-15 year master plan, and possible future projects incorporating U.S. compressors and "Solar" turbines, Babayev lamented that with oil prices falling her feared GOAJ plans

for environmental clean-up projects would be shelved. At Director Kian's suggestion that this might be the perfect impetus to apply for EXIM financing and submit a letter of interest, Babayev brightened, mentioning the upcoming SOCAR-sponsored conference on "Rehabilitation of Contaminated Soils - Suggested Methods. He also noted that representatives from Nopal, a U.S.-based company which utilizes Kenaf technology to remediate soil, were participating in the November 3-4 conference. (Note: Embassy Baku is sending a representative to cover this event. End note.)

U.S. Companies, Representatives and Customers

¶15. (C) JOHN DEERE: In a very animated meeting TI Agroservice General Director Tengiz Jikia informed Director Kian of several ongoing and upcoming projects his clients were undertaking which seem poised to revolutionize the Agricultural sector of Azerbaijan. He noted that one of his largest clients, AzerSun which accounts for 10 percent of his John Deere sales, is in the process of expanding and diversifying its agricultural products throughout Azerbaijan.

Mr. Jikia highlighted the positive impact the use of U.S. equipment has had on yields for tomatoes (100 tons from 1 hectare), sugar beets (80 tons from 1 hectare), cotton, feed grain and tobacco in the various regions of the country. TI Agroservice is the local representative for John Deere as well as Valmont.

¶16. (C) CISCO: Regional Sales Manager, Kamilla Shakhbazova explained Cisco's recent reorganization as one of the factors which slowed progress on its more than half billion USD infrastructure project. The first stage of the New Generation Network Project (NGN) would transform Azerbaijan's infrastructure using the latest WMAX, WIFI and fixed line

technologies. In the second stage of the project, Cisco would provide service to the infrastructure. She noted that now the restructuring is complete she expects to see progress in the next 2-4 months. A different plan of action will need to be used, however, as the project had been previously driven by Cisco's global team and now it is being driven by the local office. She also commented that Cisco would need to work with one or two local partners, chosen by the GOAJ.

¶17. (U) COMMENT: Overall the trip was very successful in maintaining relationships, assuaging fears and garnering information on upcoming projects with potential U.S.-made components. End Comment.

¶18. (U) EXIM has cleared on this cable.
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